

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

**FORM 10-QSB**

X Quarterly report under section 13 or 15(d) of the Securities Exchange Act of 1934 for the period ended March 31, 2003.

\_\_\_\_ Transition report under section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from \_\_\_\_\_ to \_\_\_\_\_.

**AGRONIX, INC.**

(Exact name of registrant as specified in its charter)

Florida	0-15893	13-4025362
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification Number)

1666 West 75 <sup>th</sup> Avenue Vancouver, B.C., Canada	V6P 6G2
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, include area code: (604) 714-1606

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes. X No...

Applicable only to issuers involved in bankruptcy proceedings during the past five years.

Check whether the issuer has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Exchange Act after the distribution of securities under a plan confirmed by a court. Yes ..... No .....

Applicable only to corporate issuers

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: At March 31, 2003, there were 22,975,280 shares outstanding.

Transitional Small Business Disclosure Format (Check one): Yes ..... No ..X..

PART 1 - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS AND EXHIBITS

**AGRONIX, INC.**

**(A Development Stage Company)**

**MARCH 31, 2003**  
**(Unaudited)**

**CONTENTS**

**INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

Consolidated Balance Sheets

Interim Consolidated Statements of Operations

Interim Consolidated Statements of Cash Flows

Notes to Interim Consolidated Financial Statements

# AGRONIX, INC.

(A Development Stage Company)

## CONSOLIDATED BALANCE SHEETS

<b>ASSETS</b>	<b>March 31</b>	<b>December 31</b>
	<b>2003</b>	<b>2002</b>
<b>CURRENT</b>	(Unaudited)	
Cash	\$43,717	\$23,093
Receivables	11,560	22,597
Prepaid expenses and deposits	<u>22,004</u>	<u>15,085</u>
	77,281	60,775
<b>FIXED ASSETS</b> (Note 3)	9,248	10,326
 <b>INVESTMENT IN 3884171 CANADA INC.</b> (Note 4)	 <u>1</u>	 <u>1</u>
	<u>\$86,530</u>	<u>\$71,102</u>
<b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued liabilities	\$307,509	\$259,078
Due to related parties (Note 5)	<u>63,440</u>	<u>63,440</u>
	<u>370,949</u>	<u>322,518</u>
<b>STOCKHOLDERS' DEFICIT</b>		
<b>CAPITAL STOCK</b> (Note 6)		
<b>Authorized:</b>		
50,000,000 common shares with a par value of \$0.001 per share		
10,000,000 preferred shares with a par value of \$0.001 per share		
<b>Issued and outstanding:</b>		
22,975,280 (2002: 20,967,981) common shares	13,254	11,247
Additional paid in capital	3,605,390	2,797,610
Common stock subscriptions	<u>33,883</u>	=
	3,652,527	2,808,857
<b>DEFICIT ACCUMULATED DURING THE DEVELOPMENT STAGE</b>	<u>(3,936,946)</u>	<u>(3,060,273)</u>
	<u>(284,419)</u>	<u>(251,416)</u>
	<u>\$86,530</u>	<u>\$71,102</u>
Continuance of operations (Note 1)		
Commitments (Note 8)		

See accompanying notes to the interim consolidated financial statements

# AGRONIX, INC.

(A Development Stage Company)

## INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Cumulative From Inception (Jan 20, 2000) to March 31 2003	For the Three Month Period Ended March 31 2003	For the Three Month Period Ended March 31 2002
<b>INTEREST INCOME</b>	<u>\$3,317</u>	<u>\$344</u>	<u>\$44</u>
<b>EXPENSES</b>			
Consulting and management fees	1,879,640	406,978	170,991
Depreciation	17,484	1,094	551
General and administrative	122,551	28,169	6,430
Professional fees	181,033	6,458	31,593
Rent	42,763	550	3,449
Research and development	1,179,178	409,025	107,812
Salaries and benefits	88,326	14,760	-
Shareholder communications	36,191	2,261	1,555
Travel and promotion	<u>243,376</u>	<u>7,722</u>	<u>4,399</u>
	<u>3,790,542</u>	<u>877,017</u>	<u>326,780</u>
<b>LOSS</b> before the following	(3,787,225)	(876,673)	(326,736)
Loss on impairment of investment in and advances to 3884171 Canada Inc. (Note 4)	<u>(149,721)</u>	=	=
<b>NET LOSS FOR THE PERIOD</b>	<u><b>\$(3,936,946)</b></u>	<u><b>\$(876,673)</b></u>	<u><b>\$(326,736)</b></u>
 Weighted average common shares outstanding		 <u>21,577,318</u>	 <u>19,466,056</u>
Basic loss per share		<u><b>\$(0.04)</b></u>	<u><b>\$(0.02)</b></u>

See accompanying notes to the interim consolidated financial statements.

# AGRONIX, INC.

(A Development Stage Company)

## INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Cumulative From Inception (January 20, 2000) to March 31 2003	For the Three Month Period Ended March 31 2003	For the Three Month Period Ended March 31 2002
<b>Cash derived from (applied to):</b>			
<b>OPERATING ACTIVITIES</b>			
<b>NET LOSS FOR THE PERIOD</b>	\$(3,936,946)	\$(876,673)	\$(326,736)
Depreciation	17,484	1,094	551
Non-cash research, development and intellectual property	779,856	396,000	-
Stock-based compensation	847,100	169,200	139,750
Impairment of Investment in 3884171 Canada Inc.	149,721	-	-
Wages paid through the issuance of common shares	16,500	12,000	-
Rent paid through issuance of common shares	23,209	-	3,691
Consulting and legal fees paid though the issuance of common shares	536,511	161,250	106,842
Change in non-cash working capital:			
Receivables	(11,560)	11,037	(1,220)
Prepaid expense and deposits	(22,004)	(6,919)	11
Payables and accruals	<u>294,406</u>	<u>48,433</u>	<u>30,139</u>
	<u>(1,305,723)</u>	<u>(84,578)</u>	<u>(46,972)</u>
<b>FINANCING ACTIVITIES</b>			
Advances under a credit facility with a company with director in common, net of repayments	63,440	-	(160)
Consulting fees paid	(7,913)	(7,913)	-
Advances from (to) shareholder	(14,267)	-	-
Shares issued or subscribed for cash	<u>1,484,633</u>	<u>113,132</u>	-
	<u>1,525,893</u>	<u>105,219</u>	<u>(160)</u>
<b>INVESTING ACTIVITIES</b>			
Acquisition of fixed assets	(26,731)	(17)	(5,830)
Investment in and advances to 3884171 Canada Inc.	<u>(149,722)</u>	-	<u>(291)</u>
	<u>(176,453)</u>	<u>(17)</u>	<u>(6,121)</u>
Increase (decrease) in cash	43,717	20,624	(53,253)
<b>Cash, beginning of period</b>	-	<u>23,093</u>	<u>100,610</u>
<b>Cash, end of period</b>	<u>\$43,717</u>	<u>\$43,717</u>	<u>\$47,357</u>
<b>Supplemental cash flow information:</b>			
Shares for research, development and intellectual property	<u>\$779,856</u>	<u>\$396,000</u>	<u>\$-</u>
Stock based compensation	<u>\$847,100</u>	<u>\$169,200</u>	<u>\$139,750</u>
Shares issued for rent	<u>\$23,209</u>	<u>\$-</u>	<u>\$3,691</u>
Shares issued for consulting and legal services	<u>\$536,511</u>	<u>\$161,250</u>	<u>\$106,842</u>
Shares issued for wages	<u>\$16,500</u>	<u>\$12,000</u>	<u>\$-</u>

See accompanying notes to the interim consolidated financial statements.

**AGRONIX, INC.**

**(A Development Stage Company)**

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

(Unaudited)

**MARCH 31, 2003**

**1. OPERATIONS AND GOING CONCERN**

The Company was incorporated under the laws of Florida, U.S.A. on May 6, 1996 as RCA Trading Co. The Company changed its name to Agronix, Inc. on June 18, 2001.

Pursuant to a share exchange agreement entered into on October 16, 2000 and closed on March 26, 2001, between the shareholders of the Agronix and shareholders of a private Company, American Waste Recovery, Inc. ("AWR"), the Company purchased all of the outstanding shares of AWR. AWR was incorporated under the laws of Nevada, U.S.A. on January 20, 2000 as American Bio Recovery, Inc.; on January 26, 2000, its name was changed to American Waste Recovery, Inc. The consideration for this acquisition was the issuance by the company of 6,622,250 common shares.

As a result of this transaction, AWR has become a wholly-owned subsidiary of Agronix and the former shareholders of AWR in turn became owners of the majority of the issued and outstanding shares of Agronix. Since the former shareholders of AWR have acquired control of Agronix through this transaction, it is considered a reverse acquisition and these financial statements are presented from the perspective of AWR (the accounting parent in this transaction). These financial statements present the consolidated results of operations from AWR's date of incorporation (January 20, 2000) to March 31, 2003 including the results of operations of Agronix since March 26, 2001.

Agronix has focused its activities on the development of its acquired technologies for commercial use, for identifying prime international locations to build commercial plants, and forming strategic alliances for the implementation of its global business plan. No revenues have been realized and planned principal operations have not yet commenced. Agronix is engaged in the acquisition and development of technologies that convert organic residues into agricultural products such as growth substrates, organic fertilizers, soil amendments and chemical commodities for agriculture and industry use.

These consolidated financial statements have been prepared on the basis of a going concern, which contemplates the realization of assets and satisfaction of liabilities in the normal course of operations. The Company has not generated any revenues since inception and has incurred losses since inception. At March 31, 2003 the Company had a working capital deficiency of \$298,199 and a capital deficiency of \$288,950. Accordingly, these factors raise substantial doubt as to the Company's ability to continue as a going concern. The Company's continued existence is dependent upon its ability to raise additional capital and to ultimately achieve profitable operations. It is management's intention to continue to pursue market acceptance for its technological processes and to identify funding sources until such time that there is sufficient operating cash flow to fund operating requirements.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **CONSOLIDATION**

These consolidated financial statements are presented in U.S. dollars unless otherwise stated and have been prepared in accordance with accounting principles generally accepted in the United States of America and include the accounts of the Company and its wholly-owned subsidiary, AWR.

### **STOCK BASED COMPENSATION**

In December 2002, the Financial Accounting Standards Board issued Financial Accounting Standard No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure" ("SFAS No. 148"), an amendment of Financial Accounting Standard No. 123 "Accounting for Stock-Based Compensation" ("SFAS No. 123"). The purpose of SFAS No. 148 is to: (1) provide alternative methods of transition for an entity that voluntarily changes to the fair value based method of accounting for stock-based employee compensation, (2) amend the disclosure provisions to require prominent disclosure about the effects on reported net income of an entity's accounting policy decisions with respect to stock-based employee compensation, and (3) to require disclosure of those effects in interim financial information. The disclosure provisions of SFAS No. 148 were effective for the Company for the year ended December 31, 2002 and the required disclosures have been made below.

The Company has elected to continue to account for stock-based employee compensation arrangements in accordance with the provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB No. 25") and to comply with the disclosure provisions of SFAS No. 123 as amended by SFAS No. 148 as described above. In addition, in accordance with SFAS No. 123 the Company applies the fair value method using the Black-Scholes option-pricing model in accounting for options granted to consultants. Under APB No. 25, compensation expense is recognized immediately for past services and prorata for future services over the option-vesting period.

The Company accounts for equity instruments issued in exchange for the receipt of goods or services from other than employees in accordance with SFAS No. 123 and the conclusions reached by the Emerging Issues Task Force in Issue No. 96-18, "Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring or in Conjunction with Selling Goods or Services" ("EITF 96-18"). Costs are measured at the estimated fair market value of the consideration received or the estimated fair value of the equity instruments issued for consideration other than employee services is determined on the earlier of a performance commitment or completion of performance by the provider of goods or services as defined by EITF 96-18.

The Company has also adopted the provisions of the Financial Accounting Standards Board Interpretation No. 44, Accounting for Certain Transactions Involving Stock Compensation - An Interpretation of APB Opinion No. 25 ("FIN 44"), which provides guidance as to certain applications of APB 25. FIN 44 is generally effective July 1, 2000 with the exception of certain events occurring after December 15, 1998.

The following table illustrates the pro forma effect on net income (loss) and net income (loss) per share as if the Company had accounting for its stock-based employee compensation using the fair value

provisions of SFAS No. 123 by applying the fair value method using the Black-Scholes option pricing model using the assumptions as described in Note 6.

	Three Months Ended March 31, 2003	Three Months Ended March 31, 2002
<b>Net loss:</b>		
Actual net loss	\$(876,673)	\$(326,736)
Proforma net loss	\$(876,673)	\$(326,736)
<b>Loss per share:</b>		
Actual net loss per share	\$(0.04)	\$(0.02)
Proforma net loss per share	\$(0.04)	\$(0.02)
 Weighted average shares outstanding	 21,577,318	 19,466,056

## **FIXED ASSETS**

Fixed assets are recorded at cost less accumulated depreciation. Depreciation is recorded on the straight-line method at the following rates:

Office equipment	20%	straight line
Computer equipment	30%	straight line
Computer software	50%	straight line

## **INVESTMENTS**

The Company uses the equity method to account for investments in companies such as 3884171 Canada Inc. and other business ventures over which it exercises significant influence.

## **TECHNOLOGY**

The Company capitalizes the acquisition costs of technologies when their technological feasibility has been established; otherwise such costs are charged to operations.

## **RESEARCH AND DEVELOPMENT**

The Company records all research and development costs in accordance with SFAS 2 "Accounting for Research and Development Costs". As such, all research and development costs are expensed as they are incurred, until such time as the research and development outcome is proven for commercial use, at which time the costs are capitalized and amortized.

## **LONG-LIVED ASSETS**

The Company monitors the recoverability of long-lived assets, including fixed assets and its investments in and advances to 3884171 Canada Inc., based on estimates using factors such as current market value, future asset utilization, and future undiscounted cash flows expected to result from its investment



or use of the related assets. The Company's policy is to record any impairment loss in the period when it is determined that the carrying amount of the asset may not be recoverable. Any impairment loss is calculated as the excess of the carrying value over estimated realizable value.

## **LOSS PER SHARE**

The Company follows SFAS No. 128 to calculate earnings (loss) per share. Basic loss per share is computed using the weighed effect of all common shares issued and outstanding. Fully diluted earnings per share has not been presented as the effect on basic earnings per share is anti-dilutive.

## **USE OF ESTIMATES**

In preparing financial statements in conformity with accounting principles accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the dates of the financial statements for the reporting period. Actual results may differ from those estimates.

## **FOREIGN CURRENCY TRANSLATION**

The financial statements are presented in United States dollars. In accordance with Statement of Financial Accounting Standards No. 52, "Foreign Currency Translation", foreign denominated monetary assets and liabilities are translated to their United States dollar equivalents using foreign exchange rates which prevailed at the balance sheet date. Revenue and expenses are translated at average rates of exchange during the period. Related translation adjustments are reported as a separate component of stockholders' equity, whereas gains or losses resulting from foreign currency transactions are included in results of operations.

## **RECENT ACCOUNTING PRONOUNCEMENTS**

### **SFAS 141 & 142**

In July 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 141 ("SFAS 141"), "Business Combinations", which eliminates the pooling method of accounting for business combinations initiated after June 30, 2001. In addition, SFAS 141 addresses the accounting for intangible assets and goodwill acquired in a business combination. This portion of SFAS 141 is effective for business combinations completed after June 30, 2001.

In July 2001, the FASB issued Statement of Financial Accounting Standards No. 142 ("SFAS 142"), "Goodwill and Intangible Assets", which revises the accounting for purchased goodwill and intangible assets. Under SFAS 142, goodwill and intangible assets with indefinite lives will no longer be amortized and will be tested for impairment annually or whenever events or circumstances indicate that the estimated fair value is less than the related carrying value as determined on a reporting unit basis. SFAS 142 is effective for fiscal years beginning after December 15, 2001.

### **SFAS 143 & 144**

In July 2001, the FASB issued SFAS No. 143, Accounting for Asset Retirement Obligations. This statement addresses financial accounting and reporting for obligations associated with the retirement of

tangible long-lived assets and the associated asset retirement costs. This statement applies to all entities. It applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and (or) the normal operation of a long-lived asset, except for certain obligations of lessees. This statement is effective for financial statements issued for fiscal years beginning after June 15, 2002.

In August 2001, the FASB issued SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. This statement addresses financial accounting and reporting for the impairment or disposal of long-lived assets and supersedes FASB Statement No. 121, Accounting for the Impairment of Long-Lived Assets to be Disposed Of. The provisions of the statement are effective for financial statements issued for fiscal years beginning after December 15, 2001.

The adoption of SFAS 141, 142, 143 & 144 has not had a material effect on the financing position of the Company or on the results of its operations.

### 3. **FIXED ASSETS**

	Cost	Accumulated Depreciation	Net March 31 2003	Net December 31 2002
Office equipment	\$6,964	\$1,502	\$5,462	\$5,674
Computer equipment	6,644	2,983	3,661	4,299
Computer software	990	865	125	353
	<u>\$14,598</u>	<u>\$5,350</u>	<u>\$9,248</u>	<u>\$10,326</u>

### 4. **INVESTMENT IN AND ADVANCES TO 3884171 CANADA INC.**

Pursuant to an agreement dated March 26, 2001 entered into by the Company and Bio-Max Inc. ("Bio-Max") (a Quebec City, Canada based developer of organic waste processing plants), a subsidiary (3884171 Canada Inc. ("Newco")) was created in which the Company owns 20% of the issued and outstanding common shares and Bio-Max owns 80% of the issued and outstanding common shares. Newco has been established to further the development and commercialization of Bio-Max's "Robo III" technology into Agronix/Bio-Max technology [Agronix Bio-Conversion Reactor System (BCR)] using Agronix intellectual property rights and proprietary bio-conversion formulae.

Under the terms of the agreement:

(a) Bio-Max contributed \$80 CAD and the Robo III technology as its capital contribution for an 80% interest in Newco. The Company contributed \$20 CAD and its technical process improvements, its intellectual property rights and proprietary bio-conversion formulae as its capital contribution for a 20% interest in Newco with an option to purchase a further 30% of Newco for \$1,500,000 CAD. Should the Company exercise this option, it would be a 50/50 partner with Bio-Max in Newco.

(b) The Company and Bio-Max have given each other a right of first refusal to match any offer to purchase any shares of Newco owned by each of them.

(c) Agronix has the non-exclusive world licensing rights for Robo III from Newco with the exception of

the Francophone countries.

(d) Agronix has advanced \$229,000 CAD to Newco which has completed Robo III engineering and the Bio-Conversion Reactor System (BCR) to be licensed or sold for commercial plant operations throughout the world.

To date, 3884171 Canada Inc. has used the funds advanced from the Company to further develop its technology and has not yet commenced commercial operations. Management has determined that the recoverability of these advances cannot be reasonably assured and as a result has recorded an impairment provision in 2002 of \$149,721.

## 5. DUE TO RELATED PARTIES

	March 31 2003	December 31 2002
Demand loan from a company controlled by a director		
- unsecured, principal in the amount of \$100,000 Cdn; 12%		
per annum simple interest; interest payable monthly;		
repayable on or before on June 30, 2003 (See Note 2)	<u>\$63,440</u>	<u>\$63,440</u>

## 6. CAPITAL STOCK

On June 11, 2001 the Company amended its Articles of Incorporation to change the authorized number of shares from 20,000,000 common shares to 25,000,000 and the authorized number of preferred shares from 5,000,000 to 10,000,000.

On January 9, 2002 the Company amended its outstanding number of common shares to reflect a two-for-one split. As a result, the 9,720,997 issued and outstanding shares as of that date changed to a total of 19,441,994 issued and outstanding shares. In addition, the Company amended its Articles of Incorporation to change the authorized number of shares from 25,000,000 to 50,000,000 common shares. The Company has retroactively reflected this two-for-one split in these financial statements.

## STOCK OPTIONS

The following table summarizes information about outstanding and exercisable share options at March 31, 2003:

Options Outstanding					Options Exercisable	
Number Outstanding	Grant Date	Exercise Price Per Share	Average Remaining Contractual Life (In Years)	Weighted Average Exercise Price Per Share	Number Exercisable	Weighted Average Exercise Price Per Share
840,000	01/27/00	\$0.25	3.08	\$0.25	840,000	\$0.25
400,000	01/28/00	0.25	3.08	0.25	400,000	0.25
300,000	02/17/00	0.25	3.13	0.25	300,000	0.25
500,000	08/04/00	0.25	3.59	0.25	500,000	0.25
150,000	10/30/00	0.34	3.83	0.34	150,000	0.34
400,000	01/17/01	0.50	3.05	0.50	400,000	0.50
80,000	07/03/01	0.50	4.51	0.50	80,000	0.50

1,000,000	07/09/01	0.25	3.52	0.25	1,000,000	0.25
200,000	02/22/02	0.50	0.15	0.50	200,000	0.50
3,000,000	08/15/02	1.00	4.62	1.00	1,000,000	1.00
20,000	02/07/03	0.50	5.86	0.50	20,000	0.50
<u>500,000</u>	03/07/03	0.50	5.94	<u>0.50</u>	<u>500,000</u>	<u>0.50</u>
<u>7,390,000</u>				<u>\$0.60</u>	<u>5,390,000</u>	<u>\$0.78</u>

Summary of share option activity and information concerning options at March 31, 2003:

	Three Months Ended March 31, 2003	Year Ended December 31, 2002
Balance, beginning of period	6,870,000	2,340,000
Granted	520,000	1,530,000
Cancelled	=	(200,000)
Balance, end of period	<u>7,390,000</u>	<u>3,670,000</u>

During the first quarter of 2003, the Company granted options to purchase 520,000 shares of the Company's common stock to certain consultants at a price of \$0.50 per share for a period of six years. Compensation expense of \$169,200 related to these options has been recorded. The fair value of these consultant stock options was estimated at the grant date using the Black-Scholes option-pricing model applying the market value per share and the risk-free interest rate in effect at the grant date of 3.14%, 204.22% volatility, and an expected life of six years.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options and warrants which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions, including the expected stock price volatility. Because the Company's employee stock options and warrants have characteristics significantly different from traded options, and because changes in the subjective input assumptions can materially affect the fair value estimates, in management's opinion, the existing models do not necessarily provide a reliable measure of the fair value of its employee stock options.

## PERFORMANCE SHARES

On January 27, 2000, 1,000,000 post-split performance shares were issued into escrow for the Company's President and C.E.O. For each \$0.25 of cumulative cash flow generated by the company from its operations, two performance shares will be released from escrow. All shares remain in escrow at March 31, 2003 and are not included in common shares issued and outstanding.

On September 1, 2002, the Company and its President agreed to transfer these shares to a consultant under the same terms and conditions. Refer to Note 8.

## 7. RESEARCH AND DEVELOPMENT

During 2000, AWR acquired certain soil and organic matter expertise and intellectual property from an unrelated organic residue consultant based in Ottawa, Canada for \$150,000. The consideration for this acquisition was 300,000 post-split AWR common shares issued at an estimate of their fair value of

\$0.50 per share. This research and development acquired has yet to be proven commercially and its cost of acquisition was expensed.

During 2001, 220,000 post-split Agronix shares were issued at an estimate of their fair value of \$0.32 per share (\$0.50 Cdn) to three separate parties with soil science and engineering expertise. The shares were consideration for engineering activity which was required to advance the design of the BCIR system to the point that it meets specific functional, manufacturing and economic requirements.

A further 500,000 post-split shares were issued during 2001 at an estimate of their fair value of \$0.32 per share (\$0.50 Cdn) to three separate parties with soil science and engineering expertise. The shares were consideration for routine, on-going efforts to refine, enrich, and otherwise improve upon the qualities of the existing BCR system, and the engineering follow-through to commercial production.

### **British Columbia Bio Ventures (BCBV)**

On September 1, 2002, the Company entered into a consulting agreement with BCBV whereby the Company agreed to pay a minimum of \$10,000 Cdn. per month for a period of 36 months. At that time the Company and its President also agreed that the President would transfer his 1,000,000 performance shares to the consultants. These shares were not transferred. On March 7, 2003 the September 1, 2002 agreement was terminated and the intended transfer of the 1,000,000 performance shares was cancelled. A new agreement dated March 7, 2003 was entered into whereby Agronix purchased from BCBV the rights to their intellectual and technological properties and technical systems and processes in exchange for 1,200,000 common shares at an estimate of their fair value of \$0.33 per share for a total of \$396,000 and 500,000 share options, at \$0.50 to be divided between the two principals of BCBV. Under the terms of the agreement Agronix has agreed that BCBV will manage the new Operations Division of Agronix.

The Company has incurred research and development expenses as follows:

	<b>Cumulative From Inception (January 20, 2000) to March 31 2003</b>	<b>For the Three Month Period Ended March 31 2003</b>	<b>For the Three Month Period Ended March 31 2002</b>
Acquisition of organic matter expertise and intellectual property	\$164,500	\$-	\$-
Technical development of BCR System	333,501	4,558	107,812
Technical development of BCIR System	285,177	8,467	-
BCBV intellectual property, systems and processes	<u>396,000</u>	<u>396,000</u>	-
	<u>\$1,179,178</u>	<u>\$409,025</u>	<u>\$107,812</u>

## **8. COMMITMENTS**

### **Collaborative Research and Development Agreement**

The Company has consolidated its research and development activities at Carleton University in Ottawa, Canada where pursuant to an agreement (the "Agreement") effective May 1, 2001 and as

amended July 17, 2001, the Company has committed to fund a maximum of approximately \$378,000 towards certain projects over the four year period ending April 30, 2005. Under the terms of the Agreement interest accrues at 1.5% per month on Carleton's invoices that are not paid within 30 days.

The Company will own any new technologies and/or intellectual property arising out of these research and development activities. Carleton will have the right to (a) a royalty free non-exclusive license for research and educational purposes; (b) a reasonable royalty on any commercially exploitable projects; and (c) in the event the Company does not exploit the projects within a specified time to be agreed upon, the right to commercially exploit them shall be reassigned to Carleton University, subject to a royalty-free non-exclusive license to the Company. To date the Company has incurred \$194,060 for research and development and \$15,729 in accrued interest on its outstanding liability to Carleton.

### **Licensing Agreement**

The Company has entered into a licensing agreement dated February 28, 2003 with a private Jamaican registered company whereby the Company has committed to provide exclusive rights to introduce the Company's technology throughout the Caribbean (Caricom region). Under the agreement the Company has received a promissory loan note, the principal amount of \$2,500,000; non-interest bearing and expiring on August 31, 2003.

This transaction has not been recorded in the financial statements, as there is uncertainty as to the collectibility of the \$2,500,000 note.

### **Consulting Agreements**

The Company has entered into certain consulting agreements whereby the Company has committed to issue a total of 14,500 shares per month to consultants for each month of service provided subject to monthly renewals.

The Company has entered into an agreement whereby the Company has agreed to pay a transaction fee of up to 10% of the transaction value of any contracts arising from introductions to prospective contacts.

### **Executive Employment Agreement**

The Company has entered into an executive employment agreement effective August 15, 2002 whereby the Company has agreed to pay \$20,000 per month if and when those funds are available to its C.E.O for a period of sixty months. The Company may issue up to 20,000 shares in lieu of salary any months where the funds are not available. The Company must pay four months salary on termination. Under the terms of this agreement the Company also granted stock options to the C.E.O. providing the right to acquire 3,000,000 shares of common stock at \$1.00 per share for a period of five years. (See Note 6.)

### **Letters of Intent**

#### **TERRALIFT U.K. / ORGANIC WASTE RETURNS**

The Company entered into an LOI dated January 7, 2003 and has committed to acquire an 82%

interest in a private Ireland registered company, Organic Waste Returns Ltd. (OWR) for \$1,500,000. The letter of intent had an initial expiry date of January 31, 2003 but has been extended to August 31, 2003.

Under the Letter Of Intent, Agronix may purchase 82% of the assets of Organic Waste Returns Ltd. (OWR). Completion of the acquisition is subject to the execution of a formal agreement and the Company's ability to fulfill the terms of that agreement. OWR has entered into a separate letter of intent in which it may acquire Terralift U.K. Ltd.

During negotiations, British Columbia BioVentures (BCBV) acted as an agent on behalf of OWR. BCBV has been a consultant to Agronix since 2002. Subsequent to negotiating the letter of intent, BCBV has become an "insider" through the Agronix acquisition of BCBV's intellectual property and technical processes.

Subsequently, those principals of BCBV may benefit from certain payments and shareholdings derived from the Agronix acquisition of Terralift/OWR, and could be perceived to be in a conflict of interest.

The Agronix Board of Directors will seek a legal opinion prior to the formal closing of this contract.

As well, under a separate LOI dated January 7, 2003, the Managing Director of Terralift shall be granted a stock option of Five Hundred Thousand (500,000) Agronix, Inc. shares issued quarterly from the date of closing, at market value, over 2 (two) years, for a consulting agreement to develop residual products from Agronix processing facilities.

## **9. INCOME TAXES**

At March 31, 2003, the company has net operating losses carried forward of approximately \$2,100,000 that may be offset against future taxable income to 2021. No future tax benefit has been recorded in the financial statements, as the Company believes that it is more likely than not that the carryforwards will expire unused between the 2018 and 2023 taxation years. Accordingly, the potential tax benefits of the loss carry-forwards are offset by a valuation allowance of the same amount.

## **10. RELATED PARTY TRANSACTIONS**

During the three month period ended March 31, 2003, the Company paid \$27,187 in salary and consulting fees to its president and C.E.O. including cash payments of \$15,187 and 40,000 common shares valued at \$12,000. The Company also paid \$204,083 to certain officers and other shareholders as consulting fees comprised of cash payments of \$49,433 and 463,500 common shares valued at \$154,650. The Company paid 1,200,000 common shares valued at \$396,000 for research and development as disclosed in note 7.

## **11. SUBSEQUENT EVENTS**

Subsequent to March 31, 2003, the Company issued 83,881 shares for \$26,018. In addition, the Company issued the 102,765 shares which were subscribed during the period for \$33,883.

## **ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF**

## **OPERATION**

The following discussion contains certain statements that may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Any statements that refer to expectations, projections or other characterization of future events or circumstances, and especially those which include variations of the words "believes," "intends," "estimates," "anticipates," "expects," "plans," or similar words or variations thereof, are likely to be forward-looking statements, and as such, are likely to concern matters involving risk, uncertainty, unpredictability and other factors that could materially and adversely affect the outcome or results indicated by or inferred from the statements themselves. Therefore, the reader is advised that the following discussion should be considered in light of the discussion of risks and other factors contained in this Form 10QSB and in the Company's other filings with the Securities and Exchange Commission, and that no statements contained in the following discussion or in this Form 10QSB should be construed as a guarantee or assurance of future performance or future results.

### **Introduction**

During the second quarter 2001, the Company held a special shareholders' meeting, which approved a name, change from RCA Trading Co. d.b.a. American Waste Recovery, Inc. to Agronix, Inc.. This name change complements the market/industry in which the Company does business. At that time, the number of authorized shares of common stock of the Company was voted to be increased from 10,000,000 to 25,000,000, and 10,000,000 shares of preferred stock were also authorized. In January 2002, in conjunction with a 2:1 forward split of its issued and outstanding common stock, the Company increased its authorized common stock from 25,000,000 to 50,000,000 shares.

### **Plan of Operations**

Agronix, Inc. is in the business of acquiring and developing technologies that convert organic wastes (animal manure, sewage sludge, bio-solids, produce processing waste, etc.) into agricultural products such as growth substrates, organic fertilizer, soil amendments and other value added agri-products. The Company is also engaged in the business of developing a technology that is used to recover chemical commodities from organic waste for a wide variety of industries such as agriculture, food, oil & gas, paper, clothing and pharmaceuticals. The Company's Bio-Conversion Reactor System (BCR System) is now fully engineered and ready to enter the market. The Company has located 3 permitted locations in North America and Europe to launch its first plant; Quebec, United Kingdom and Massachusetts.

The Company remains in the development stage and does not have an established source of revenue sufficient to cover its operating costs. As of March 31, 2003, the Company had cash on hand of \$43,717, which is not sufficient to allow it to pay its operating expenses and carry out its plan of operation for the next twelve months. Therefore, it is the Company's intention to seek additional financing through private and public placements of its common stock and to seek commercial alliances and begin production where market opportunities exist.

The Company experienced a net loss of \$876,673 for the quarter ended March 31, 2003, and a net loss of \$326,736 for the same period last year. The loss for the period ending March 31, 2003 is approximately \$549,937 more than the loss for the same period of 2002. The difference is primarily



due to stock based compensation for consulting and management, and research and development costs that weren't realized in 2002.

Pursuant to an agreement entered into by the Company and BIOMAX Inc., a Canadian company located in Quebec City (a developer of automated organic waste processing plants), the Company and Biomax have created a subsidiary 3884171 Canada Inc. ("Newco") to further develop and commercialize Biomax's "Robo III" technology by combining the Robo III technology with the Agronix proprietary technology. In exchange for its technology contribution, Biomax has an 80% interest in Newco, and for its cash contribution of \$229,000 CAD, intellectual property and proprietary soil science expertise Agronix has received exclusive licensing rights and a 20% equity interest. Agronix has the right to purchase a further 30% equity interest over the next 3 years for \$1,500,000 CAD. The asset in Newco has been expensed as per US GAAP rules; however, this accounting change has no material affect on the acquisition of the technology acquired by Agronix, Inc. and the related contracts.

Agronix is actively involved in negotiations to joint venture Bio-Conversion Reactor System (BCR) plants in the following jurisdictions:

USA – Massachusetts, New York, California;

Europe - Geneva, Switzerland (Greater Regional District), Germany and Ireland

Canada – Alberta, British Columbia and Quebec.

Additionally, the Company is negotiating with a large feed and plant nutrient supplier with operations in the US and Canada to secure take-out contracts for Agronix's BCR plant organic fertilizers and growth substrates.

The Company has entered into discussions with the Farm Credit Corporation (FCC) of Canada to provide 75% financing for plants to be constructed in Canada, but there is no assurance that this funding will be available. 100% financing is available through the FCC provided the Company partners with members of the Agriculture community.

The Company has its research and development activities at Carleton University in Ottawa where it has committed to fund research being carried out by Carleton University for a period of 5 years. The Company will own any new technologies and/or intellectual property arising out of these research and development activities.

There are no assurances that the Company can continue to meet its financial obligations without a major funding. The Company has been able to cover its overhead and general administrative cost by selling private placement on a sporadic basis. These funds have been sufficient to cover day to day operational costs.

During the first quarter of 2003 the Company entered into an agreement with British Columbia Bio-Ventures to acquire its intellectual property and technical processes. The acquisition of these technical processes and systems will enable Agronix to process any type of profitable organic waste into valuable end-products to market to the organic food industry. In addition, Dave Roberts and Dale Fehr have joined Agronix's management team to head up the newly formed Operations Division. They will provide the Company with due diligence for the acquisition of profitable targeted sites as they relate to the BCR & BCIR Systems.

The addition of Dave Roberts and Dale Fehr along with the acquisition these technologies and processes is in keeping with the new direction the company adopted towards the end of 2002. Recognizing the change in market conditions and implementing the Company's technologies through partnering in existing facilities is intended to bring revenue into the Company in a more efficient and cost effective manner.

The Company signed a Letter of Intent with Organic Waste Returns (OWR) of Ireland for an 82% interest in this Irish Corporation. Upon the successful completion of a formal agreement with OWR, Agronix will realize immediate revenues.

The Company is working with strategic partners globally, which could result in advancements for the Company in 2003.

The Company is listed for trading on the OTC Bulletin Board under the symbol "AGNI."

### **ITEM 3. CONTROLS AND PROCEDURES**

The Company's Chief Executive Officer and Chief Financial Officer (or those persons performing similar functions), after evaluating the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-14(c) and 15d-14(c) under the Securities Exchange Act of 1934, as amended) as of a date within 90 days before the filing date of this quarterly report (the "Evaluation Date"), have concluded that, as of the Evaluation Date, the Company's disclosure controls and procedures were effective to ensure the timely collection, evaluation and disclosure of information relating to the Company that would potentially be subject to disclosure under the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder. There were no significant changes in the Company's internal controls or in other factors that could significantly affect the internal controls subsequent to the Evaluation Date.

## **PART II**

### **ITEM 1. LEGAL PROCEEDINGS**

None.

### **ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS**

Subsequent to March 31, 2003, the Company issued 83,881 shares for \$26,018. In addition, the Company issued the 102,765 shares which were subscribed during the period for \$33,883.

### **ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

### **ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

None.

### **ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.**

(a) Exhibits 99.1 and 99.2, CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES- OXLEY ACT OF 2002, are filed herewith.

(b) No reports on Form 8-K were filed during the quarter ended March 31, 2003.

## **SIGNATURES**

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

### **AGRONIX, INC.**

By: /S/ PETER DRUMMOND

Peter Drummond, Chairman and Chief Executive Officer

By: /S/ BRIAN HAUFF

Brian Hauff, President, Chief Financial Officer and a Director

By: /S/ HENRI DINEL

Henri Dinel, Vice President and a Director

By: /S/ PETER J. BARNETT

Peter J. Barnett, Director

Date: May 20, 2003

AGRONIX, INC.

CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Peter S. Drummond, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Agronix, Inc.
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
  - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether there were significant changes in internal controls or in other factors that could significantly affect internal

controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

By: /S/ PETER S. DRUMMOND

Date: May 20, 2003

Peter S. Drummond, Chairman and Chief Executive Officer

AGRONIX, INC.

CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Brian Hauff, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Agronix., Inc.
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
  - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 20, 2003

By:/S/ BRIAN HAUFF

Brian Hauff, Chief Financial Officer and Director